

CALLAN ASSOCIATES^{INC}



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DENVER

October 12, 2006

Alaska Retirement Management Board
State of Alaska, Department of Revenue
Treasury Division
333 Willoughby Avenue, 11th Floor
Juneau, AK 99801

Dear Board Members:

This letter reviews the investment performance of the Alaska Retirement Management Board (ARMB) for the fiscal year ended June 30, 2006.

Callan Associates Inc. (Callan) independently calculates time-weighted performance statistics based on underlying custodial data provided by the Board's custodian, State Street Bank and Trust Company. The performance calculations were made using a time-weighted return methodology based upon market values. Callan Associates Inc. serves as ARMB's independent general investment consultant and evaluates the Board's performance in relation to market benchmarks, appropriate manager peer groups and other public pension systems. The performance calculations were made in compliance with Global Investment Performance Standards.

ARMB's primary investment objective is to prudently and expertly invest assets, in accordance with governing law and industry practices, in a manner that will help ensure assets under supervision are sufficient to pay promised benefits to its members and their beneficiaries. In pursuit of this objective, the ARMB periodically evaluates liabilities, expected contributions, and potential earnings. This analysis is used to consider a wide range of potentially viable investment strategies. The Board selects a strategic investment policy that balances long-term growth potential and acceptable risk. A policy benchmark is constructed that mirrors the Board's strategic asset allocation policy. This policy benchmark is a custom index comprised of equity, fixed income, real estate and other market indices weighted in the same proportions as ARMB's investment policy.

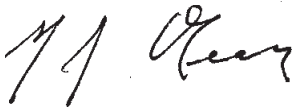
Fiscal year 2006 was a year of good progress for domestic equity and strong performance by international stocks. The Russell 3000 Index, a measure of the broad U.S. equity market achieved a solid return of 9.56%. International stocks, as measured by the MSCI EAFE Index, posted an exceptional overall return of 26.56%. Interest rate increases hurt bond prices and performance. The Lehman Aggregate Bond Index, a widely used measure of the investment grade domestic bond market, suffered a small negative return of 0.81%. Equity real estate enjoyed another strong year with returns of more than 18%.

For the fiscal year, the Public Employees' Retirement System (PERS) had a time-weighted total return of 11.74% and the Teachers' Retirement System (TRS) had a time-weighted total return of 11.78%. Both Systems exceeded their strategic policy benchmark target return of 10.38% and ranked in the 22nd and 21st percentile respectively of Callan's Public Fund database. The policy benchmark was largely unchanged during the year. Over the trailing 3-year period, a span that includes three years of recovering equity market returns, PERS and TRS have achieved annualized returns of 11.90% and 11.93% respectively. These results were slightly better than the policy target index return of 11.63% and also above the Callan Public Fund database median. These results have largely offset the weak returns experienced during the fiscal 2001-2003 period. Over the longest period for which Callan has detailed data (14 3/4 years), PERS and TRS have achieved annualized total returns of 8.89% and 8.96% respectively while the policy benchmark return for the same span was 8.83%.

Both systems are well diversified and currently have asset allocation policies that, in our opinion, are slightly more conservative than that of the average public fund.

In summary, fiscal 2006 was another strong year that helps demonstrate the wisdom of broad diversification across multiple asset classes.

Sincerely,

A handwritten signature in black ink, appearing to read "M. J. O'Leary".

Michael J. O'Leary, Jr., CFA
Executive Vice President

**Department of Revenue
Treasury Division
Staff**

Commissioner

William Corbus

Chief Investment Officer

Gary Bader

Investment Officers

Bob G. Mitchell

Stephen R. Sikes

Philip Bartlett

Zachary Hanna

Victor Djajalie

James McKnight

Casey Colton

Clay Cummins

Nicholas Orr

Ryan Bigelow

Bree Simpson

Deputy Commissioner

Tomas Boutin

Comptroller

Susan Taylor, CPA

Cash Management

Michelle M. Prebula, MBA, CPA, CCM

ARMB Liaison Officer

Judy Hall

External Money Managers and Consultants

Investment ConsultantsCallan Associates, Inc.
*Denver, CO*The Townsend Group
San Francisco, CA

Relational Investors LLC

*San Diego, CA*Tukman Capital Management, Inc.
*San Francisco, CA***Investment Advisory Council**

William Jennings

Colorado Springs, CO

Jerrold Mitchell

Wayland, MA

George Wilson

*Boston, MA***Domestic Equity Small Capitalization**

Jennison Associates LLC

New York, NY

Lord Abbett & Co.

Jersey City, NJ

Luther King Capital Management

Fort Worth, TX

Trust Company of the West

New York, NY

Turner Investment Partners, Inc.

*Berwyn, PA***Absolute Return**

Cadogan Management, LLC

New York, NY

Crestline Investors, Inc.

Fort Worth, TX

Mariner Investment Group, Inc.

*Harrison, NY***Domestic Equity Index Fund**

State Street Global Advisors

*Boston, MA***Domestic Fixed-Income**

BlackRock Financial Management, Inc.

*New York, NY***Emerging Markets**

Capital Guardian Trust Co.

Los Angeles, CA

J.P. Morgan Fleming Asset Management, Inc.

*New York, NY***Domestic Equity Large Capitalization**

Capital Guardian Trust Co.

Los Angeles, CA

Dresdner RCM Global Investors

San Francisco, CA

McKinley Capital Management, Inc.

*Anchorage, AK***Global Equity**

Lazard Freres Asset Management

New York, NY

External Money Managers and Consultants (con't)

High Yield

ING Investment Management
Hartford, CT
MacKay Shields LLC
New York, NY

International Equity – EAFE

Brandes Investment Partners, L.P.
San Diego, CA
Capital Guardian Trust Co.
Los Angeles, CA

International Fixed-Income

Mondrian Investment Partners
London, England

Private Equity

Abbott Capital Management, L.P.
New York, NY
Blum Capital Partners
San Francisco, CA
Pathway Capital Management, LLC
Irvine, CA

Real Estate – Agriculture

Hancock Agricultural Investment Group
Boston, MA
UBS AgriVest, LLC
Hartford, CT

Real Estate – Commingled Funds

Cornerstone Real Estate Advisers, LLC
Hartford, CT
Coventry Real Estate Fund II, LLC
New York, NY
Heitman Capital Management
Chicago, IL
ING Clarion Partners
New York, NY
J.P. Morgan Investment Management Inc.
New York, NY
Lehman Brothers Real Estate Partners
New York, NY
Lowe Hospitality Investment Partners, LLC
Los Angeles, CA
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
Hartford, CT

Real Estate – Core Separate Accounts

Cornerstone Real Estate Advisers, Inc.
Hartford, CT
LaSalle Investment Management
Chicago, IL
Sentinel Real Estate Corporation
New York, NY
UBS Realty Investors, LLC
San Francisco, CA

Real Estate – Value Added Separate Accounts

Invesco Realty Advisors
Dallas, TX
Lowe Enterprises Investment Management Inc.
Los Angeles, CA

Independent Auditors

KPMG LLP
Anchorage, AK

Legal Counsel

Wohlforth, Johnson, Brecht,
Cartledge & Brooking
Anchorage, AK

Teachers' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

INVESTMENTS

The State of Alaska Teachers' Retirement System's (TRS) investment goals are the long-term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually, the Alaska Retirement Management Board (ARMB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the ARMB.

During the 2006 fiscal year¹, ARMB's asset allocation was 36% domestic equities, 15% international equities, 24% domestic fixed-income, 2% international fixed-income, 9% real estate, 6% private equity, 3% absolute return, 2% high yield fixed-income, and 3% other (farmland and energy).

For the 2006 fiscal year, TRS investments generated a 11.78% rate of return. The TRS annualized rate of return was 6.56% over the last five years. The annualized rate of return over the last fourteen and three-quarter years has been 8.96%.

INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect overall returns. For the 2006 fiscal year, the real estate portfolio gained 18.58% and the international equity portfolio gained 28.80%. The U.S equity portfolio generated a 9.23% return up from 4.48% the previous year.

EQUITIES

The Total Domestic Equity Pool is diversified across large cap value, large cap growth, core, small cap value and small cap growth equity styles so as to gain broad market exposure. For the 2006 fiscal year, the fund posted a return of 9.23%. This was less than the target return of 9.67%. The annualized domestic equity return for the five-year period was 2.44% from a negative 1.93% in the 2005 fiscal year. Investment guidelines for all asset classes are approved by ARMB and govern investment objectives, program risk management and implementation, procedures for investment, and other operational requirements. Equity investment guidelines include policies with regard to the types of permissible equity investments, limitations on holding and investment of cash, proxy voting, and restrictions/prohibitions on the use of leverage and derivatives.

Within the International Equity pool the non-U.S. equity style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool return was 28.80% which was greater than the target return of 26.56%. The international equity return for the five-year period was 11.21% from 1.87% in fiscal year 2005.

FIXED-INCOME

The domestic fixed-income portfolio represented 21.7% of the total assets of TRS as of June 30, 2006. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. Government Agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index. Fixed-income investment guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, and company concentration.

¹ July 1, 2005 – June 30, 2006

Teachers' Retirement System Investment Report

Over the 2006 Fiscal Year, the TRS domestic bond portfolio gained 0.06%, down from 7.10% the year before. The Lehman Brothers Aggregate Bond Index returned a negative 0.81%, versus 6.80% during 2005 fiscal year. The annualized domestic fixed-income return for the five-year period was 5.24% from 7.63% in the 2005 fiscal year.

The international fixed-income portfolio, which represented about 2.1% of the total assets of TRS, returned a negative 0.26% over the 2006 fiscal year, compared with a negative 0.01% posted by the Salomon Brothers Non U.S. Government Index. The annualized international fixed-income return for the five-year period was 12.43% from 11.19% in the 2005 fiscal year. International fixed-income guidelines include policies with regard to duration, credit quality, sector concentration, issue concentration, company concentration, country restrictions, and currency hedging.

During the 2005 fiscal year TRS began investing in the High Yield Sector of the U.S. Fixed-income Market. High yield fixed-income guidelines include policies with regard to duration, credit quality, geographic concentration, sector concentration, issuer concentration, and restrictions/prohibitions on the use of leverage and derivatives. The High Yield portfolio, which represented 1.6% of the total assets of TRS, returned 5.55% over the 2006 fiscal year. This was more than the target return of 4.65%.

REAL ESTATE

At the end of the 2006 fiscal year, TRS had 10.3% of its portfolio invested in real estate. The portfolio is primarily invested in specific institutional properties geographically diversified across the U.S. Property types include apartments, office, industrial, and retail. The portfolio is also invested in value-added real estate funds and real estate investment trust (REIT) equity securities. Investing in real estate helps diversify the overall portfolio due to its low correlation to stocks and bonds. Real estate adds a

stable source of income and provides a degree of inflation hedge. Real estate guidelines include policies with regard to property quality, geographic concentration, property size, property type, leverage, insurance coverage, and environmental evaluations.

The total return for real estate, net of fees, was 18.58% in fiscal year 2006 compared to 17.43% for the 2005 fiscal year. The five-year annualized net total return was 12.28% from 10.65% in the 2005 fiscal year.

PRIVATE EQUITY

Six percent of the TRS portfolio is invested in Private Equity for long-term return enhancement and diversification. Investments are made through three investment managers. These investment managers have invested in over 100 private equity partnerships focused on venture capital, buyouts, or special situations. The private equity portfolio is well diversified by strategy, industry, geography, manager, and time. Private equity policies and procedures include guidelines with regard to investment quality, diversification, investment structure, and operation of the program.

During the 2006 fiscal year, the Private Equity component of the TRS portfolio had a net return of 25.89% with a five-year annualized return of 5.01%.

ABSOLUTE RETURN

During the 2005 fiscal year the TRS portfolio began investing in absolute return strategies for additional diversification. Absolute return investments are made through three fund-of-fund managers and are 2.5% of the total portfolio. Each fund is well diversified by strategy and manager and targets a 5% real return with low correlation to equity and fixed-income markets. Absolute return policies and procedures include guidelines with regard to investment objectives, investment structure, investment quality, leverage, liquidity, strategy, manager

Teachers' Retirement System Investment Report
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concentration, risk management, and operation of the program. Absolute Return returned 10.56% over the 2006 fiscal year. This was more than the target return of 8.39%.

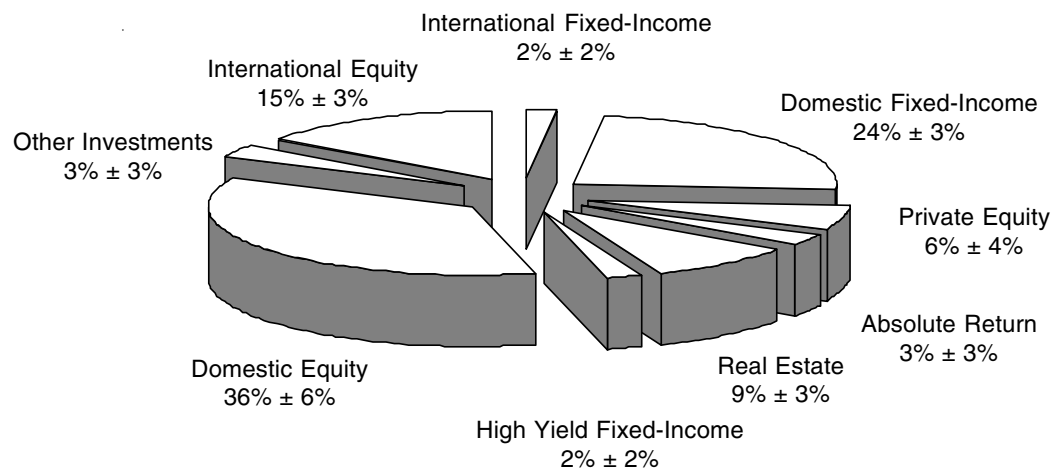
OTHER

The TRS portfolio is also invested in farmland and energy investments. These investments are relatively new and are focused on providing the portfolio with additional diversification. The farmland investments are made through two separate account managers responsible for assembling a well diversified portfolio. The energy investment manager is focused on creating a balanced and diversified portfolio of oil, gas, and electric investments. Collectively, farmland and energy investments represent 0.8% of the overall portfolio and had a net return of 8.54% for the 2006 fiscal year.

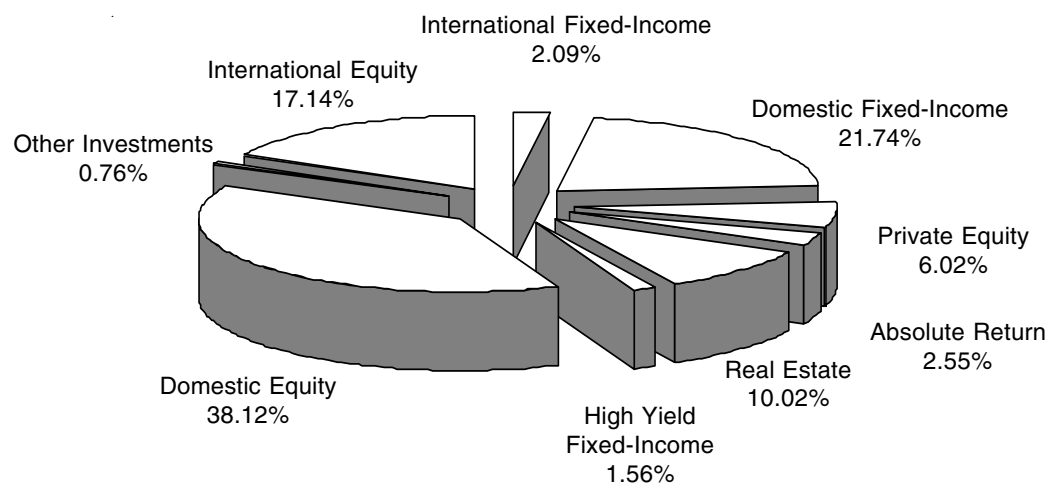
Teachers' Retirement System Schedule of Investment Results Fiscal Years Ended June 30							
	2002	2003	2004	2005	2006	Annualized	
						3 Year	5 Year
Total Fund							
TRS	(5.49%)	3.68%	15.09%	9.01%	11.78%	11.93%	6.56%
<i>Actuarial Earnings Rate</i>	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
U.S. Common Stock Returns							
TRS Domestic Equities	(16.85%)	(0.97%)	20.06%	4.48%	9.23%	11.07%	2.44%
<i>S&P 500/Russell 2000 Composite</i>	(17.99%)	0.25%	19.11%	6.87%	9.67%	12.48%	3.63%
International Stock Returns							
TRS International Equities	(8.24%)	(5.11%)	31.70%	15.17%	28.80%	25.01%	11.21%
<i>Morgan Stanley Capital International EAFE</i>	(9.49%)	(6.46%)	32.37%	13.65%	26.56%	23.94%	10.02%
Domestic Fixed-Income							
TRS	8.16%	10.70%	0.61%	7.10%	0.06%	2.54%	5.24%
<i>Lehman Brothers Aggregate Index</i>	8.63%	10.40%	0.32%	6.80%	(0.81%)	2.29%	4.97%
International Fixed-Income							
TRS	22.56%	24.48%	7.52%	9.84%	(0.26%)	5.61%	12.43%
<i>Salomon Non-U.S. Government</i>	15.73%	17.90%	7.60%	7.75%	(0.01%)	5.05%	9.61%
Real Estate Equity							
TRS	5.24%	8.97%	11.55%	17.43%	18.58%	15.81%	12.28%
<i>NCREIF</i>	5.60%	7.64%	10.83%	18.02%	18.79%	16.19%	13.31%
S&P 500 = Standard & Poor's Domestic Equity Stock Index EAFE = Europe, Australia, and Far East Stock Index NCREIF = National Council of Real Estate Investment Fiduciaries Index							

**Teachers' Retirement System Trust Fund
Asset Allocation
June 30, 2006**

Policy

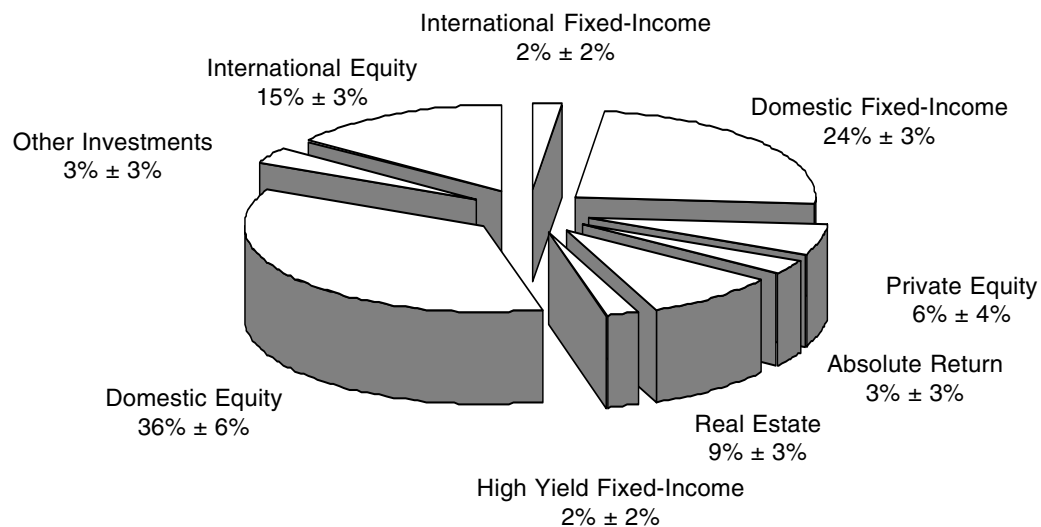


Actual

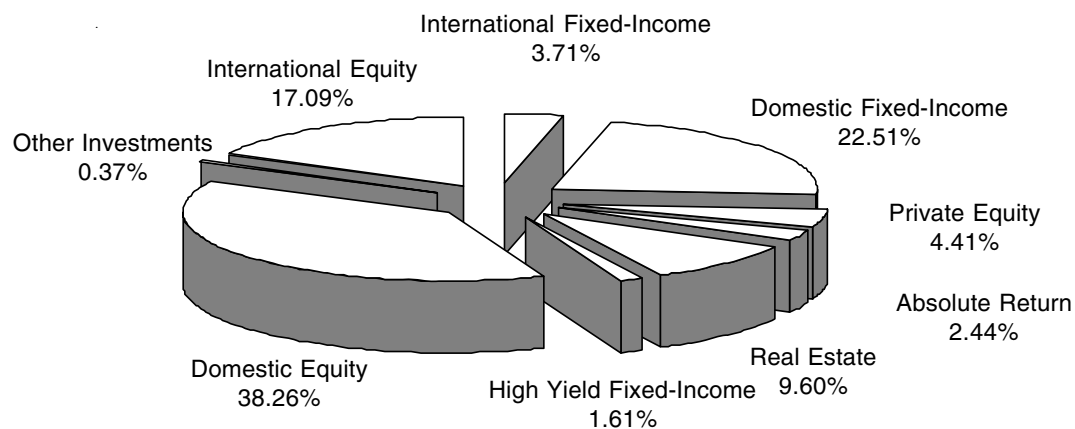


**Teachers' Retirement System
Asset Allocation
June 30, 2005**

Policy



Actual



**Alaska Retirement Management Board
Top Ten Holdings by Asset Type
June 30, 2006**

Invested assets under the fiduciary responsibility of the ARMB have been commingled in various investment pools to minimize costs and maximize returns. The Treasury Division has created twelve different mutual fund-like pools to accomplish the investment asset allocation policies of the ARMB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Second, pooling investments significantly reduces accounting, budgeting, and administrative costs. Finally, the ARMB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value as of June 30, 2006.

	<u>Rank</u>	<u>Fair Value</u>	<u>Par Values/ Shares</u>	<u>Security</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Credit Rating</u>
Fixed- Income	1	\$138,460,389	\$138,500,000	FNMA Discount Notes	0.00%	7/5/2006	AAA
	2	\$78,596,681	\$60,105,000	U.S. Treasury Bond	8.50%	2/15/2020	Not Rated
	3	\$68,606,481	\$71,500,000	Federal National Mtg. Assn.	5.50%	8/1/2036	Not Rated
	4	\$61,082,019	\$62,128,000	Federal National Mtg. Assn.	6.00%	8/1/2036	Not Rated
	5	\$59,425,080	\$62,450,000	U.S. Treasury Notes	4.50%	2/15/2016	Not Rated
	6	\$55,410,756	\$59,300,000	Federal National Mtg. Assn.	5.00%	8/1/2036	Not Rated
	7	\$30,994,196	\$68,000,000	Federal National Mtg. Assn.	0.00%	10/9/2019	Not Rated
	8	\$30,242,087	\$30,261,000	U.S. Treasury Notes	5.13%	6/30/2008	Not Rated
	9	\$28,196,688	\$28,700,000	Federal Home Loan Banks	4.43%	4/7/2008	AAA
	10	\$23,993,778	\$25,544,280	Federal National Mtg. Assn.	5.00%	11/1/2033	Not Rated
Equities	1	\$124,351,488	3,772,800	General Electric			
	2	\$84,623,736	3,631,920	Microsoft			
	3	\$82,114,398	1,338,458	Exxon Mobil			
	4	\$66,661,646	1,385,897	Bank America			
	5	\$65,437,596	1,089,900	PepsiCo			
	6	\$64,607,253	1,339,288	Citigroup			
	7	\$63,669,434	1,062,574	Johnson & Johnson			
	8	\$59,815,229	1,012,959	American Int'l Group			
	9	\$54,467,928	979,639	Procter & Gamble			
	10	\$52,860,990	1,258,595	JP Morgan Chase			

Note: As of June 30, 2006, the TRS owned 31.26% of the fixed-income securities listed above and 31.16% of the equity securities listed above.

Additional investment information may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

**Teachers' Retirement System
Schedule of External Management Fees
Year Ended June 30, 2006**

	<u>Fair Value</u>	<u>Fees</u>
Investment Management Fees		
Domestic Fixed-Income		
Blackrock Financial Management, Inc.	\$ 257,124,802	300,428
International Fixed-Income		
Mondrian Investment Partners	89,709,413	203,667
High Yield Pool		
ING Investment Management	33,581,942	167,186
MacKay Shields, LLC	33,312,991	149,721
Total High Yield	66,894,933	316,907
Domestic Equity Pool		
Cap Guardian Trust Co.	120,652,370	261,241
TCW Asset Management Company	92,538,767	699,275
SSgA S&P 500 Index Fund	620,204,423	93,754
Jennison Associates, LLC	58,390,892	469,067
Lord Abbett & Co	55,729,663	379,162
Luther King Capital Management	40,734,226	240,678
Lazard Freres	120,104,748	426,886
McKinley Capital Management	105,975,471	360,517
RCM	143,531,878	394,227
Relational Investors, LLC	91,728,996	1,059,303
Russell 2000	3,928,278	370
Tukman, Value	91,998,416	512,034
Turner Investment Partners	91,442,092	541,066
Total Domestic Equity Pool	1,636,960,220	5,437,580
Private Equity Pool		
Blum Capital Partners-Strategic	10,553,552	205,511
Blum Capital Partners-Public	15,245,369	141,835
Pathway Capital Management LLC	73,769,233	243,784
Abbott Capital	158,940,227	360,998
Total Private Equity	258,508,381	952,128
International Equity Pool		
Brandes Investment Partners	159,864,914	772,473
Cap Guardian Trust Co	149,240,332	525,296
Lazard Freres	146,110,096	338,435
McKinley Capital Management	93,740,886	434,798
State Street Global Advisors	89,733,668	421,415
Total International Equities	638,689,896	2,492,417
Absolute Return Pool		
Mariner Investment Group	35,694,455	459,549
Cadogan Management LLC	36,008,378	435,093
Crestline Investors, Inc.	37,638,983	486,012
Total Absolute Return	109,341,816	1,380,654

Teachers' Retirement System
Schedule of External Management Fees (con't)
Year Ended June 30, 2006

	<u>Fair Value</u>	<u>Fees</u>
Other Investment Pool		
TCW Energy Fund	\$ 12,619,823	131,592
UBS Agrivest, LLC	14,572,806	66,860
Hancock Agricultural Investment Group	<u>5,288,679</u>	<u>19,298</u>
Total Other Investment	<u>32,481,308</u>	<u>217,750</u>
Emerging Markets Equity Pool		
JP Morgan Investment Management	44,937,216	267,065
The Capital Group Inc.	<u>52,168,030</u>	<u>303,408</u>
Total Emerging Market	<u>97,105,246</u>	<u>570,473</u>
Real Estate Pool		
J.P. Morgan Liquidity Fund	396	-
Cornerstone Real Estate Advisors	55,932,583	328,267
Lasalle Investment Management	68,167,490	394,700
Coventry Real Estate Advisors	4,989,788	145,841
Lowe Hospitality Investment Partners	9,105,267	77,930
Lowe Enterprises	-	109,048
Tishman Speyer Real Estate Venture VI	13,467,035	76,331
Rothschild Five Arrows	5,717,056	194,825
Cornerstone Rotational Fund	18,233,451	21,858
ING Clarion Partners	5,953,546	-
Lehman Brothers Real Estate Partners	9,840,185	688,194
J.P. Morgan Strategic Property	62,502,134	453,660
UBS Brinson Consolidated Account	24,809,727	248,741
UBS Brinson Separate Account	97,106,357	506,932
Sentinel Real Estate Corporation	22,917,244	121,109
Invesco Realty Advisors	<u>-</u>	<u>999,658</u>
Total Real Estate	<u>398,742,259</u>	<u>4,367,093</u>
Total	<u>\$3,585,558,274</u>	<u>16,239,098</u>
Custodian		
State Street Corporation		<u>411,393</u>
Investment Advisory		
Callan Associates		18,166
The Townsend Group		<u>74,224</u>
Total Investment Advisory		<u>92,390</u>
Investment Performance Measurement		
Callan Associates		<u>76,579</u>
Total External Management Fees		<u>\$ 16,819,460</u>

**Teachers' Retirement System
Investment Summary Schedule
June 30, 2006**

	<u>Asset Allocation Policy</u>	<u>Range</u>	<u>Market Value</u>	<u>% of Asset Class</u>	<u>% of Total Assets</u>
Participation in Pools Owning Fixed-Income Securities					
Domestic					
Short-Term			\$ 516,688	0.06%	0.01%
Retirement			675,922,659	72.40%	15.74%
External Domestic			<u>257,124,802</u>	<u>27.54%</u>	<u>5.99%</u>
Total Domestic Fixed-Income	24%	21-27%	933,564,149	<u>100.00%</u>	21.74%
International					
International Fixed Income Pool	2%	0-4%	89,709,413	<u>100.00%</u>	2.09%
High Yield					
High Yield Fixed Income Pool	<u>2%</u>	<u>0-4%</u>	<u>66,894,932</u>	<u>100.00%</u>	<u>1.56%</u>
Total Fixed-Income	<u>28%</u>	<u>21-35%</u>	<u>1,090,168,494</u>		<u>25.39%</u>
Participation in Pools Owning Domestic Equities					
Small cap ⁽¹⁾	6%	3-9%	342,763,919	20.94%	7.98%
Large cap	<u>30%</u>	<u>27-33%</u>	<u>1,294,196,303</u>	<u>79.06%</u>	<u>30.14%</u>
Total Domestic Equities	<u>36%</u>	<u>30-42%</u>	<u>1,636,960,222</u>	<u>100.00%</u>	<u>38.12%</u>
Participation in Pools Owning International Equities					
International			638,689,896	86.80%	14.88%
Emerging Markets			<u>97,105,245</u>	<u>13.20%</u>	<u>2.26%</u>
Total International Equities	15%	12-18%	<u>735,795,141</u>	<u>100.00%</u>	<u>17.14%</u>
Participation in Pools owning Alternative Investments					
Private Equity	6%	2-10%	<u>258,508,381</u>	<u>100.00%</u>	<u>6.02%</u>
Other Investments	3%	0-6%	<u>32,481,308</u>	<u>100.00%</u>	<u>0.76%</u>
Absolute Return	3%	0-6%	<u>109,341,816</u>	<u>100.00%</u>	<u>2.55%</u>
Participation in Real Estate					
Mortgages, net of allowances			32,672	0.01%	0.00%
Real Estate Pool			<u>430,261,807</u>	<u>99.99%</u>	<u>10.02%</u>
Total Real Estate	<u>9%</u>	<u>6-12%</u>	<u>430,294,479</u>	<u>100.00%</u>	<u>10.02%</u>
Total Invested Assets	<u>100%</u>		<u>\$ 4,293,549,841</u>		<u>100.00%</u>

⁽¹⁾ Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.

**Alaska Teachers' Retirement System
Recaptured Commission Fees
Year Ended June 30, 2006**

<u>Domestic Equity</u>	<u>International Equity</u>	<u>Total</u>
\$ 221,469	76,714	298,183

The ARMB's Commission Recapture program has been in place since 1995, first working with various brokers then switching to the State Street program in 2005. Under a commission recapture program a portion of the commissions and mark-ups on trades (placed through the State Street broker network) flow directly back to the fund.

The program allows managers to place trades for commission recapture purposes. The ARMB has established direction percentages for the managers to strive for, but is only requiring best efforts to meet them given their fiduciary obligation to achieve best execution of transactions.

The current rebate arrangement with State Street Global Markets is: 80% of the brokerage commissions earned in executing domestic equity transactions; 72% of the brokerage commissions earned in executing domestic equity transactions via correspondent brokers; and, 60% of the brokerage commissions earned in executing international equity transactions.

**Net Securities Lending Income
Year Ended June 30, 2006**

Securities lending income	\$ 15,350,057
Less securities lending expense	<u>14,438,459</u>
Net income from securities lending activities	<u>\$ 911,598</u>

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with State Street Corporation (the Bank) to lend equity and domestic fixed-income securities. The Bank, acting as the ARMB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

Cash collateral is invested in a registered 2(a)-7 money market fund which is valued at amortized cost approximating fair value. The ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, therefore securities collateral is not recorded on the financial statements.

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